



## Obama signs federal trade secret bill into law: key points for IP

Intellectual Property and Technology Alert

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President Barack Obama today signed the Defend Trade Secrets Act (DTSA) into law, effective immediately.

The DTSA provides a federal claim for misappropriation of trade secrets. Until now, trade secrets have been protected only at the state level, with most states (other than New York and Massachusetts) adopting their own version of the Uniform Trade Secrets Act (UTSA).

### **FEDERAL VS. STATE LAW**

The DTSA creates a trade secret action under federal law that is intended to supplement, rather than preempt, state laws.

### **REMEDIES**

The DTSA provides for a number of remedies, among them:

- Ex parte seizures: The “ex parte seizure” provision of the DTSA provides a means for plaintiffs to ask courts to order the seizure of property “necessary to prevent the propagation or dissemination of the trade secret.” Under the DTSA, the ex parte seizure application can be brought by a plaintiff without any notice to the adverse party. **To temper potential abuse of the procedure, the DTSA sets out an extremely high standard that a plaintiff must meet in an affidavit or verified complaint in order to obtain an ex parte order.** Essentially, the ex parte seizure procedure will apply only in extreme situations, such as a flight risk or a massive theft of information with severe harm that cannot otherwise be prevented with an injunction. The provision also provides an action for damages if a person has been subject to a wrongful seizure, which is similar to what is provided for wrongful seizures under the Lanham Act.
- Damages for actual loss and damages for unjust enrichment.
- Instead of damages, a reasonable royalty for the unauthorized use or disclosure.
- Exemplary damages for willful or malicious misappropriation.
- Similar to the UTSA, attorneys’ fees for bad faith misappropriations.
- Injunctive relief, or where an injunction would be inequitable, payment of a reasonable royalty.

## WHISTLEBLOWER PROTECTIONS

The DTSA provides whistleblower protection from prosecution to employees, independent contractors and consultants<sup>[1]</sup> who disclose trade secrets if the disclosure was made to report or investigate an alleged violation of law and requires that employers include notice of such immunity in any agreement with an employee, contractor or consultant that governs the use of trade secret or confidential information. Failure to provide this notice would result in the employer not being able to recover exemplary damages or attorneys’ fees from the employee if the employer were to sue the employee under the federal trade secret law.

## CONTRACT IMPLICATIONS

Based on the notice requirement, employers should review the agreements they use with employees, independent contractors and consultants that govern the use of trade secret or confidential information to include the notice of the whistleblower immunity. <sup>[2]</sup> The notice provision is **required in all such agreements that are entered into on or after May 12, 2016 as well as any amendments entered into on or after May 12, 2016** with respect to any such pre-existing agreements. This provision is clearly applicable to all employee proprietary information and invention agreements, contractor and consulting agreements with individuals as well as nondisclosure agreements. The DTSA does provide employers an alternative to satisfy the notice requirement by including a cross-reference in the agreement with the employees, consultants and contractors to the employer’s policies that include the notice of immunity.

DLA Piper’s i.D.R.A.F.T. startup kit materials have already been updated to reflect the notice to employees and individual contractors and consultants required by the new law. See the freshly updated documents here.

## INEVITABLE DISCLOSURE

***The DTSA’s provisions regarding injunctive relief expressly reject the inevitable disclosure doctrine (merely possessing knowledge of a trade secret) as a basis for obtaining an injunction.*** The doctrine allows employers to enjoin former employees from working for competitors based on the rationale that the employee would inevitably utilize his personal knowledge of an employer’s trade secrets in his new position. The inevitable disclosure doctrine is a hotly contested issue amongst states. The “threatened misappropriation” provision of the DTSA allows an employer to obtain an injunction to prevent an employee from taking a job based on “evidence of threatened misappropriation” but “*not merely on the information the person knows.*” Individual states’ laws governing non-compete agreements are not affected by the DTSA.<sup>[3]</sup>

While it is clear that the DTSA does not allow an employer to seek injunctive relief based on the inevitable disclosure doctrine, the **DTSA creates an open question as to whether inevitable disclosure may be used to establish a claim for trade secret misappropriation to obtain monetary damages.**

Moreover, the DTSA specifies that “improper means” does not include “reverse engineering, independent derivation, or any other lawful means of acquisition,” but fails to create a specific carve-out for the type of knowledge innocently acquired that could later form the basis for an inevitable disclosure issue. Case law will interpret and establish the scope of “other lawful means of acquisition,” which could determine the fate of inevitable disclosure.

This issue can reasonably be expected to reach the US Supreme Court in the years to come.

## PRE-DISCOVERY TRADE SECRET DISCLOSURE

A key difference to note in pursuing a claim under the DTSA vs. state law is the lack of a pre-discovery trade secret disclosure requirement in the DTSA. Under most state trade secret laws, a plaintiff is required to specifically identify in a written disclosure each trade secret at issue before conducting any discovery regarding the trade secret questions. This requirement is a gating item to prevent a plaintiff from gaining unfettered access to its competitor's confidential, proprietary, or trade secret information through litigation without a legitimate basis to do so and limits the trade secret discovery to the scope of the disclosure. In California, as well as other states, this pre-discovery disclosure requirement is found in the code of civil procedure (e.g. Cal. Civ. Proc. Code 2019.210), rather than in the UTSA.

Prior to the enactment of the DTSA, many federal courts hearing state law trade secret claims would require a plaintiff to furnish a trade secret disclosure prior to conducting trade secret discovery. It is likely that federal courts will continue to follow this path even with DTSA claims under their Federal Rule of Civil Procedure 26 discretion to manage discovery. It is also quite likely that future legislation will address this open issue.

With this new federal trade secret law and the increased scrutiny on patent cases and patent discovery, it is highly likely that litigants, mainly tech company litigants, will pursue more trade secret claims, which means tracking the application of the law and the case law that develops is critically important.

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[1] The DTSA expressly defines individuals performing work as consultants or contractors as "employees" for purposes of the whistleblower provision.

[2] Please look for updates from our technology, sourcing and commercial practice for a more in-depth discussion of DTSA implications for commercial and technology contracts.

[3] Please look for updates from our employment and labor group for a more in-depth discussion of DTSA implications in the employment context.

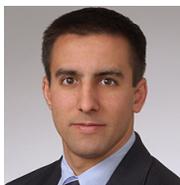
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